

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
April 21, 2006

REGULAR SESSION

Board Members Present

Ken Cochran, Chair
Chuck Schalliol, Vice Chair
Kathy Ettensohn
Bob Welch
Regina Overton
Matt Murphy

Board Members Absent

None

Others Present

Tony Armstrong, Office of Management & Budget
Jim Bosserman, Ernst & Young
Alan Goldberg, Lindsey, Goldberg & Bessemer
Greg Stack, State Budget Agency
Ryan Kitchell, Indiana Finance Authority
David Johnson, Bio-Crossroads
Larry Wechter, Monument Advisors
Tim Tichener, Pearl Street
Curt Smith, Strategic Investment Solutions, Inc.
Doug Todd, McCreedy & Keene
John Piper, Nationwide Retirement Solutions

PERF Staff Present

David Adams, Executive Director
Terry Magid, Chief Operating Officer & Deputy Director
Dave Huffman, Chief Technology Officer & Deputy Director
Andrea Unzicker, General Counsel
Shawn Wischmeier, Chief Investment Officer
Erin Hankins, Executive Assistant to the Executive Director
Jayelynn Willman, Executive Assistant to the Board

Meeting called to order at 1:03 by Chairman Cochran.

I. Approval of Minutes

MOTION duly made and carried to approve the minutes from the February 24, 2006 board meeting.

Proposed by: Matt Murphy
Seconded by: Kathy Ettensohn
Votes: 6 in favor, 0 opposed, 0 abstentions

II. Old Business

- Legislative Update

Andrea Unzicker provided the Board with a 2006 Legislative Summary. The board was given a list of all signed PERF related bills.

- Audit Update

Terry Magid introduced Jim Bosserman from Ernst & Young (E&Y). Ernst & Young is working with PERF to develop their internal control structure. E&Y's focus is on the following four areas:

- Establishing specific accounting procedures around the reserve accounts
- Define the accounting structure as well as validate the general ledger functionality
- Perform roll forward and reconciliation that is required by the SBOA
- Develop change management protocols

Chuck Schalliol inquired on the price of the E&Y project and if the SBOA had the capability to handle the project. Mr. Magid explained the cost for Phase I of the project was an additional \$150,000.00 and that the special procurement process would be used for subsequent projects that will be part of phase II. Mr. Adams stated that the SBOA has the ability to assist PERF with guidance, but the SBOA is an auditor and they are required to maintain their independence.

III. Executive Director Report

Mr. Adams discussed the Performance Report recently published by the Governor. The report outlines the activities of various state agencies from July 2005 through December 2005. PERF is one of five agencies that either scored consistently high on the current

performance measures or demonstrated marked improvement in the majority of measures.

Mr. Adams reviewed the scorecard results with the board. There was an increase in the competitive sourcing participation from last quarter. This was due to planned savings by converting print functions from an external vendor to one inside state government. From a financial performance standpoint, the CRIF is at \$13.9 billion as of March 31, 2006.

Mr. Adams discussed PERF's continued commitment to customer service:

- For the first time, PERF is processing refund applications as they arrive. This is a 70% year-to-date improvement.
- The length of time from retirement date to first check has improved 19%.
- Customer satisfaction is at 78.9%. This is a 23% increase.
- 11% of transactions are currently being conducted online. Purdue, Ball State, IU, and IPS are doing their service certifications online with PERF.
- PERF has redesigned the website. The redesign focused on feedback from employers and members.
- PERF is seeking a Retirement Services Director.
- PERF launched the "Save Your Seat" campaign. This campaign is geared toward educating vested members near retirement.
- Nine interns will be working at PERF this summer.
- The Service Excellence Team has been very responsive. Their focus is to resolve issues as quickly as possible.

Mr. Adams outlined some of the major initiatives to take place between now and June 30, 2006 that will help improve PERF.

- PERF Board retreat discussion on different fund activities.
- The technology team is working on the reimplementation of SIRIS. As part of the reimplementation, SIRIS will be renamed the Benefit Management System (BMS).
- The IT team is upgrading PERF's imaging software.
- Review of the compensation plan within the organization.
- PERF is reviewing all human resource policies. Any recommended changes will be brought to the board in June 2006.
- Improving the Service credit calculations process.

IV. New Business

- **Investment Update**

Investment Update

Shawn Wischmeier provided the board with an investments update. PERF is just under \$14 billion in the CRIF. Return for the first quarter was 5% which added \$670 million to PERF's asset base. As part of their portfolio review, the Investments team has conducted spring visits with all of their managers. They plan on doing an onsite visit with Hughes as well. PERF will conduct their visit and report back to the board about the situation on a long-term basis.

Recommendation of Alternative Investment Opportunities

Lindsey, Goldberg & Bessemer (LGB)

Mr. Wischmeier explained that LGB is currently part of PERF's alternative asset portfolio. PERF invested \$50 million dollars into LGB's Fund I. The fund has done extremely well for PERF. Mr. Wischmeier introduced Alan Goldberg from LGB. Mr. Goldberg discussed Fund I and II with the board.

Mr. Goldberg also discussed the history of Lindsey, Goldberg & Bessemer with the board and the successes they've had over the years.

Ms. Wischmeier explained that LGB was PERF's first private equity commitment. This investment would fit very well into their strategy of trying to foster and create very strong relationships.

PERF's recommendation is to commit \$125 million, pending final due diligence and review of legal documents, into LGB's Fund II.

Curt Smith with Strategic Investment Solutions (SIS) agreed that this commitment fits in with the rest of PERF's portfolio.

MOTION duly made and carried to commit \$125 million to Lindsey, Goldberg & Bessemer's Fund II as presented.

Proposed by:
Seconded by:
Votes:

Matt Murphy
Kathy Ettensohn
6 in favor, 0 opposed, 0 abstentions

Customized Fund Manager

Mr. Wischmeier noted that PERF's private equity portfolio is less than 10% invested. The original goal was to start investing in 2002 and be fully vested by 2008. The Investment Team is focused on larger deal sizes in order to meet that goal and PERF would not be able to invest in Indiana firms because PERF would represent such a large portion of the assets for the firm. The customized fund would address this issue.

PERF looked at all state, public and local governmental type funds. Approximately half of those had some type of customized fund. Twenty of those funds were similar to what PERF wanted to do. PERF worked with SIS to create an RFP. The RFP was issued and 11 responses were received. The responses were narrowed down to three and after many meetings PERF has a finalist that can best meet the objectives. The RFP made it clear that the primary objective of the fund was rate of return and the secondary objective was a focus on Indiana based investments.

Mr. Wischmeier introduced David Johnson from Bio-Crossroads, Tim Tichener from Pearl Street, and Larry Wechter from Monument Advisors. They discussed their thoughts on why they supported PERF creating this fund.

Mr. Wischmeier read the recommendation to the board for their vote. The Executive Director and the Investment Team recommend the creation of a \$100 million private equity fund. Upon approval, PERF staff will negotiate terms with the selected general partner. Upon successful negotiating of the terms and document review by legal counsel, PERF will, with the signature of the Executive Director, enter into an agreement to establish this fund.

MOTION duly made and carried to create a customized private equity fund as presented.

<i>Proposed by:</i>	<i>Chuck Schalliol</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>5 in favor, 0 opposed, 1 abstentions</i>

- **Financial Update**

Budget

Mr. Magid reviewed the budget with the board. The net assets have increased by nearly \$1.5 billion since the beginning of this fiscal year, largely due to investment returns. PERF has continued

to stay below their FY 06 budget. PERF has approximately 48% of their budget left which includes the 7% reduction. At the last board meeting, PERF discussed the RFP dealing with correcting the errors in the benefits processes and trying to analyze the remaining errors from 2004 to date. The estimate was based on preliminary information and was estimated to cost around \$1 million to fix the later part of the errors. PERF now estimates cost is closer to \$2 million dollars, based upon responses from the RFP.

Kathy Ettensohn asked why there is fund to fund borrowing in the budget. Mr. Magid explained that the legislators defined contribution plan does not include money to pay administrative expenses. The legislation states that such administrative expenses are paid for by the legislators defined benefit plan. In addition, some administrative expenses for those two plans are also to be paid, in the first instance, from PERF.

- **Benefits**

IPSI Resolution

Mrs. Unzicker discussed Resolution 06-01. PERF recommends that the technology operations of the Indiana Pension Systems, Inc. (IPSI) be transferred to the Indiana Office of Technology (IOT). IPSI was formed in 2003 and since that time IOT was formed by Governor Daniels'. PERF has assessed the cost savings will be achieved by moving IPSI's operations to IOT. This resolution provides the Executive Director with the power to take all the necessary steps to dissolve IPSI as a corporation and finalized the transfer.

Mr. Adams added that the Teachers' Retirement Fund (TRF) approved the same resolution since IPSI was established for both PERF and TRF on March 28th. Based on the fiscal analysis, this will save the funds around \$270,000.

Matt Murphy inquired as to how the equity that was used to establish IPSI will be handled. Mr. Adams stated that PERF and TRF put in \$500,000 each to develop IPSI and that money will be returned to each party.

MOTION duly made and carried to approve the resolution to dissolve IPSI.

Proposed by:
Seconded by:
Votes:

Kathy Ettensohn
Regina Overton
6 in favor, 0 opposed, 0 abstentions

- **PERF Interactive Update**

David Huffman presented PERF's new website to the board.

Mr. Huffman acknowledged Amanda Black from the Communications Department and Access Indiana for their hard work creating the website. The ideas for the website came from focus group discussions with members and employers.

Mr. Huffman discussed the major changes to the PERF website:

- Each fund is now color coded
- Significant information such as Pre-Retirement Workshop dates have been moved to the front of the site
- Important steps for retiring or applying for a refund were placed on the main page

Mrs. Etensohn asked if members can register for workshops online or ask questions online. Mr. Huffman explained that as of right now members cannot register online, but the website does list the dates for each workshop. There is also a "Contact Us" section on the website where individuals can e-mail PERF questions or obtain the telephone and fax number for PERF. All e-mailed inquiries go to one Customer Service Representative in our Call Center.

Regina Overton asked if PERF discussed Deferred Compensation during their pre-retirement workshops. Mr. Adams explained that currently PERF does not, but that they do have the intent to discuss all aspects of retirement during their workshops in the future. PERF is actively seeking a Director of Retirement Services to oversee the workshops and create a more collaborative discussion for those workshops. Mr. Adams acknowledged that it is PERF's responsibility to make potential retirees aware of all retirement aspects.

V. Date of Next Meeting

Board Retreat on May 24th, 2006 at McCormick's Creek State Park.

VI. Adjournment

Adjourned at 3:52pm.